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Regulatory Affairs

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October 18, 1996

Federal Communications Commission
VIA HANDDELIVERY

VIA FIRST-CLASS MAIL

Chairman Reed E. Hundt
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Commissioner Sharon Nelson

Commissioner Ken McClure
Commissioner Julia Johnson
Commissioner Laska Schoenfelder
Ms. Martha Hogarty

Re: Federal-State Joint Board On Universal Service
CC Docket No. 96-45

Dear Joint Board Members:

TCG strongly recommends that the GTE's proposal for auctions as a means of establishing support levels in high cost areas be rejected. Contrary to GTE's assertions in their formal comments to the FCC and in their recent comments to the press and others, their auction proposal is indeed a barrier to entry, and it is less efficient and more complex than any alternative.¹ Like most parties to this proceeding, GTE supports the use of cost studies to establish the initial subsidy level.² Under GTE's proposal, however, only the incumbent local exchange carriers would receive the initial subsidy amount. For a competitor to qualify for support, according to GTE, it must first engage in a bidding war with the incumbent and any other carrier wishing to serve an area. This approach is blatantly anticompetitive, and in this proceeding auctions should be prohibited except under very unusual circumstances, as discussed below. A more reasonable approach, and one that is competitively neutral, is to allow all providers access to the universal service support on identical terms and conditions.

1. In its order rejecting GTE's auction proposal in California (R.95-01-020 and I.95-05-01-021), the California Public Utilities Commission stated that "... auctions for all high cost areas would be administratively difficult. The Commission or its designee may have to become involved with numerous, ongoing auctions."

2. Since filing their initial comments in this proceeding, however, GTE has apparently suggested that auctions would replace cost studies entirely, even in the establishment of the initial support level.

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Adjustments to the support level will be made following periodic reviews of the rates charged for basic service by all carriers in an area. This approach is simpler, more efficient, and requires less regulatory intervention than GTE's proposal.

As discussed in TCG's comments in this proceeding, the completion of one accurate cost study is necessary for the purposes of establishing the initial funding requirement of the universal service mechanism.³ (In the past, GTE has agreed with TCG and most other parties regarding this element of the NPRM in this proceeding. As noted above, their position may have changed.) Contrary to GTE's suggestion, however, neither auctions nor additional cost studies will be necessary to adjust the funding requirement as competition develops. As TCG detailed in its comments, once the initial support ceiling is established, only periodic reviews of the rates and services offered by providers of basic service will be necessary to determine a new funding requirement based on the average rates charged by all carriers serving an area. Such reviews could be undertaken as frequently as determined to be necessary. TCG recommends that such reviews be completed every three years (or more often as market conditions dictate), both to monitor the impact of competition and to adjust the support requirement. Simply by periodically monitoring the rates charged by competing carriers, the Commission can obtain all the information it needs to adjust the funding requirement to reflect the impact of competition on reducing the subsidy requirement. Such reviews can be completed with a minimal commitment of the Commission's or Joint-Board's resources or the resources of the carriers.

Auctions, on the other hand, are by definition, difficult to design, cumbersome and expensive to administer, and useful only under special circumstances. One need only examine the recent auction of the wireless spectrum for PCS to get an idea of the time and resources necessary to conduct an auction successfully. The PCS auction took months to design and more months to complete, and required constant and considerable oversight by the Federal Communications Commission. GTE's proposal is just as complex and the complexity is compounded by necessity of conducting multiple auctions throughout the year.

3. GTE, however, supports a return to the long-discredited backward-looking cost studies based on embedded cost, rather than forward-looking economic cost studies.

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For example, GTE would require the completion of five steps even before the carriers submit their first bid! And each step in itself represents a considerable administrative burden on both the Commission and the carriers each time an auction is conducted! The GTE proposal requires that each time the Commission contemplates a change to the funding level (and GTE recommends that the auctions be conducted as often as twice each year), it would have to identify the geographic boundaries of the auctions and would have to establish bidding schedules ("step 1"). The process is further complicated by carrier requests to adjust the auction boundaries ("step 3"), creating the possibility of seemingly endless adjustment of the auction parameters. Furthermore, GTE would require the Commission to verify each carrier's (unspecified) "eligibility requirements" not only once ("step 2") but twice ("step 4") each time an auction is undertaken. Not only could such requirements create unnecessary barriers to entry for some firms, it might also create an overwhelming administrative burden for the Commission. Even before the bids are submitted, GTE's "timeline" lays the foundation for an administrative quagmire that is as unnecessary as it is complicated.

While appropriate for the special circumstances of the wireless spectrum and potentially unserved areas, auctions cannot be completed quickly enough or cheaply enough to satisfy the industry's need for a rapid, efficient, and fair universal service adjustment mechanism. Insofar as the purpose of the auction is to reveal the value of the services provided to customers in a particular area, such information will be revealed in the marketplace in the prices charged to customers by both CLECs and incumbent LECs. An auction would only be redundant, expensive, and a substantial barrier to competition.

Sincerely,



Paul Cain
Director, Government Affairs
and Public Policy
(718) 355-2255

cc: Commissioner James H. Quello
John Morabito
Geanine Poltronieri



Regulatory Affairs

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VIA HAND DELIVERY

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal
Service, CC Docket No. 96-45

Dear Mr. Caton:

Teleport Communications Group Inc. ("TCG") hereby gives notice of an ex parte presentation in the above-referenced proceeding. On October 18, 1996, Paul Cain of TCG sent the attached letter by hand-delivery to Chairman Hundt, Commissioner Quello, Commissioner Chong and Commissioner Ness. The letter was also hand-delivered to John Morabito and Geanine Poltronieri of the Common Carrier Bureau. The letter was sent by first-class mail to Sharon Nelson, Kenneth McClure, Julia Johnson, Martha Hogarty and Laska Schoenfelder, the state members of the Federal-State Joint Board.

Very truly yours,

A handwritten signature of Paul Cain in dark ink, written in a cursive style.

Paul Cain
Director, Government Affairs
and Public Policy
(718) 355-2255

Attachment

cc: Chairman Reed E. Hundt
Commissioner James H. Quello
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Commissioner Julia Johnson
Commissioner Kenneth McClure
Commissioner Sharon Nelson
Commissioner Laska Schoenfelder
Martha Hogarty
John Morabito
Geanine Poltronieri